Manitoba

Annual Report 1987

The Public Utilities Board

To the Honourable Alvin Mackling, Q. C.,
Minister of Consumer and Corporate Affairs,
215 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Sir:

Section 109(1) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December in the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Report of the Board thus transmitted to the Minister

> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to submit to you as Minister under the Act, the Twenty-Eighth Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1987, on behalf of those Members named below who comprised the Board for the period covered by this Report.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully submitted, this 29th day of February, 1988.

Sincerely,

Edward J. Robertson,
Chairman.

Oscar Tonn	-	Vice-Chairman
Rudy Schilling	-	Member
Susan Proven	-	Member
Ruth McNeill	-	Member
Joe Taylor	-	Member
G. O. Barron	-	Executive Secretary
Derek deGraff	-	Associate Secretary

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Greater Winnipeg Gas Distribution Act
The Gas Pipe Line Act
The Gas Storage and Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The Municipal Act (Local Utilities)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)
The Manitoba Telephone Act
The Manitoba Hydro Act (Appeals, Reference)

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

BOARD PERSONNEL

At the date of this Report, the Board consists of Five (5) Members assisted by a Secretariat, as noted below:

Chairman of the Board	Mr. E. J. Robertson (appointment effective January 16, 1988)
Vice-Chairman	Mr. O. Tonn (rejoined Board and was Acting Chairman for the period August 15, 1987 to January 15, 1988)
Member	Mr. R. Schilling
Member	Ms. S. Proven
Member	Ms. R. McNeill
Member	Mr. J. Taylor
Executive Secretary	Mr. G. O. Barron
Associate Secretary	Mr. D. C. deGraff

The Board would like to express its appreciation to fellow Board Member and Chairman, Dr. M. S. Donnelly who decided to retire from his professional career as a Professor at the University of Manitoba and this Board as of August 14, 1987. The Board wishes Dr. Donnelly well in his retirement.

Professional, technical and expert assistance is regularly available to the Board, as authorized by statute and/or by Order-in-Council in respect of the appropriate statutory provisions in The Public Utilities Board Act. Such legal, engineering, accounting and other professional or technical staff support providing service to the Board is exclusively and wholly by statute under Board direction in respect of that service. These Advisors are employed on an

"as needed" basis, are paid fees set by Order-in-Council on an "as utilized" basis, plus expenses, with such disbursements being recoverable to a large extent from the utilities regulated. The Board is empowered by The Public Utilities Board Act to secure such other assistance as it deems appropriate in the process of adjudication, with the related disbursements, if any, being charged directly to the parties as the Board may determine.

BOARD MEETINGS AND HEARINGS

A total of 72 Board Meetings and public hearings were held in 1987:

Board Meetings	26
Public Hearing Days	40
Pre-Hearing Conference Days	6

ORDERS ISSUED

During the year ending December 31, 1987, 184 Orders were issued, as follows:

Public Utilities Orders

Public Utilities Board Act	1
Water and Sewer Utilities	95
Gas Utilities	42
Manitoba Telephone System	34
Manitoba Hydro	3
Transit	2

Highways Protection Act Orders

Appeals	3

Miscellaneous

Gas PipeLine Act	1
Cemeteries Act	3

NOTE: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's offices upon request.

NATURAL GAS DISTRIBUTION UTILITIES

GENERAL

Agreement on Natural Gas Markets and Prices

The Federal Government and the gas producing provinces of Alberta, British Columbia and Saskatchewan entered into an Agreement titled "Agreement on Natural Gas Markets and Prices" (the October Agreement) dated October 31, 1985 whereby the administration of natural gas prices at the Alberta Border was to be abolished. The October Agreement which became effective on November 1, 1985 provided for, amongst other things, the following:

> "-direct sales at prices and terms freely negotiated between producers and distributors or large industrial users, provided transportation service is made available by consumer provinces' regulatory bodies;
> - competitive marketing programs under which distributors will be permitted to offer discounts to meet competition;
> - export floor prices based on regional price tests rather than a single Toronto price;
> - an NEB review of TCPL's services in light of the new pricing system to ensure equitable access to this system;
> - removal of volume restrictions on short-term natural gas exports;
> - a comprehensive review of the role and operations of interprovincial pipelines."

The October Agreement fixed the Alberta Border Price at $2.79804 per gigajoule (GJ) or $3.00 per thousand cubic feet (Mcf) until November 1, 1986 following which time the cost of gas was to be market sensitive.

The ICG Greater Winnipeg Gas Company (GWG) and ICG Utilities (Manitoba) Ltd. (ICG), together to be known as (Companies) like utilities in other provinces conducted negotiations with the marketing arm of TransCanada PipeLines Limited (TCPL) Western Gas Marketing Limited (WGML), its traditional supplier of natural gas, to put in place a pricing agreement to replace the abolished administered Alberta Border Price as of November 1, 1986. Such pricing agreements were entered into on October 23, 1986 and for the purpose of this report will be titled the "1986 Agreements".

The 1986 Agreements

The 1986 Agreements established a price for natural gas for a two (2) year period ending October 31, 1988. The Companies in applications, each dated December 17, 1986, applied to the Board for approval of rates to reflect the terms and conditions of the 1986 Agreements. The 1986 Agreements provided for a reduced cost of gas, if approved by the Board, to be retroactive, as applicable, to November 1, 1986.

Specific details with respect to the 1986 Agreements were provided in the Board's 1986 Annual Report.

In a letter to the Board dated December 17, 1986, the Ministers of Energy & Mines and of Consumer & Corporate Affairs expressed concerns that the pricing Agreements entered into by the Companies did not provide for the lowest price of natural gas for Manitoba consumers and accordingly, the Minister of Consumer & Corporate Affairs requested that the Board, pursuant to Section 64 of The Public Utilities Board Act, convene public hearings:

"to investigate all matters relating to the cost of gas supplied by Inter-City Gas Limited and the Greater Winnipeg Gas Company in their respective franchise areas, and more particularly:

1) to inquire whether such cost of gas exceeds the competitive market price of gas; and

2) whether the current regulatory, contractual, administrative and institutional arrangements concerning the supply of gas ensure that in future, gas will be provided to Manitoba consumers at competitive prices."

The Board held the public hearing/inquiry into these matters in February and March, 1987.

In April, 1987 the Board issued its report to the Minister and subsequently, in Order No. 89/87 dated May 13, 1987, its decision with respect to the Companies' applications.

Dealing with the report to the Minister the Board reached the following conclusions:

"Regarding the Competitive Market Price

1. Due to a number of constraints there is not a free competitive market for natural gas sales to distributors for resale to core customers. Assuming no constraints, the best way to determine the competitive market price for gas is through a tendering process.

2. The Gas Pricing Agreements [GPA] result in a blended Manitoba cost of gas of $2.45/GJ ($2.64/Mcf) if all available discounts are utilized, with provision for a further reduction to $2.32/GJ ($2.49/Mcf) if the MFT [Motive Fuel Tax] is removed in its entirety.

   The blended cost of gas to GWG (Greater Winnipeg Gas Company) based on discounts forecast to be taken rather than total discounts available will be $2.55/GJ ($2.73/Mcf).

3. If a competitive market did exist for the supply of gas to distributors as at October 1986, the Board estimates that price of gas would likely have been as follows:

   (a) Approximately $2.10/GJ ($2.25/Mcf) for an acceptable long term supply of gas.

   (b) Approximately $1.87 to $1.96/GJ ($2.00-$2.10/Mcf) for an acceptable portfolio of natural gas supply.

4. The Gas Pricing Agreements stream gas to the Companies so that core customers pay $2.79084/GJ ($3.00/Mcf) for their gas while large volume customers receive substantial discounts. The Board will comment further on this in its Order regarding the Companies' Applications.

5. Excepting the application of the MFT by TCPL/WGML (TransCanada PipeLines Limited/Western Gas Marketing Limited), the Companies have negotiated a price comparable to distributors in Ontario on a unit volume basis.

6. The Companies in Manitoba have the lowest load factor of any utility east of the Alberta border. The Companies require a secure supply of gas, including peaking gas, due to the large temperature sensitive load, lack of storage and lack of a large interruptible load.

7. Testimony was put forth by witnesses on behalf of the Province of Manitoba as well as Northridge to the effect that the price of gas should be in the range of $1.73/GJ ($1.85/Mcf). However, no producers were identified due to confidentiality, and no in depth cross examination of this testimony could be made. Further, the Province of Alberta stated that removal permits would not be granted for this gas or in the case of Northridge, would be revoked.

Regarding Future Gas Supply

1. The evidence indicates that deregulation of the natural gas industry will be a slow process evolving over a period of years.

2. The principal constraints to a free competitive market for all consumers of natural gas are:

   (a) Control by the Province of Alberta through removal permits.

   (b) Sanctity of contracts and self displacement.

   (c) Double demand.

   (d) The streaming of natural gas.

   (e) Contractual constraints (TCPL).

3. The Province of Manitoba should continue their discussions and negotiations with the Government of Alberta, Federal agencies and other relevant bodies to remove the constraints identified in this report so that all consumers of natural gas in Manitoba can benefit from a competitive market price for gas as a result of deregulation."

The Board acknowledges the assistance it received to prepare its report and ultimately its Order from all sectors of the natural gas industry including Manitoba, Alberta and Federal Government Departments, natural gas producers and brokers, natural gas transmission and distribution companies and representatives of large, intermediate and small natural gas consumers.

Having issued its report to the Minister, the Board then dealt with the Applications filed by the Companies. While the matters raised in each Application were distinct, they were each so closely related to matters raised as part of the Ministerial Inquiry that both Applications were dealt with together in the hearing. Order No. 89/87 was thereafter issued as to the Applications.

With respect to the Companies' Applications the Board reached the following conclusions:

"1. The evidence indicates that deregulation of the natural gas industry will be a slow process evolving over a period of years.

2. The Board will accept the rates applied for by GWG and ICG subject to the following:

   a) the rates are to be in effect from November 1, 1986 to October 31, 1987 unless amended and approved.

   b) that the MFT be allocated to all customers on an equal cents per MCF basis.

3. The Board finds that the administration and application of discounts are matters falling within its jurisdiction and are subject to its approval when fixing just and reasonable rates.

4. The MFT as presently applied results in rates that are unduly discriminatory.

5. The application of the various discount funds provided for in the [General Pricing Agreement] (GPA) may result in rates that are unduly discriminatory.

6. Under the present contractual relationship between the Companies and TCPL/WGML the Board does not consider there is a significant conflict of interest with its affiliated gas producing company.

7. As a result of this Order the Board denies the Province's motion to dismiss ICG's rate application before the Board.

8. The Companies should work with the Province, TCPL/WGML and others for the removal of constraints and the acquisition of a gas supply for all consumers at competitive market prices.

9. The discounts provided by the producers to certain customers (streaming) impinges on the Board's jurisdiction and the Board directs the Companies to include this matter in any further negotiations.

10. The Board will require the Companies to lay before it, prior to July 30, 1987 a proposed gas purchasing plan and contract portfolio, tender documents and gas purchasing agreements such that the Company may call for tenders for a portion or all of its gas supply at such time as it may be instructed by the Board or as may otherwise be appropriate.

11. The Board concludes that in light of the numerous constraints on the Companies, the superior bargaining position of TCPL/WGML and the necessity of ensuring that gas continued to flow as of November 1, 1986, that the Companies having failed to act during the summer of 1986 had no choice but to sign the GPA.

12. The Board may require the Companies to place before it for approval all discounts to be offered as part of the Market Discount Fund and Customer Specific Discount Fund."

The Board in its Order identified two basic issues common to both Applications and these were:

1. Were the Companies prudent in signing the 1986 Agreements?

2. Are the proposed rates unduly discriminatory?

As noted earlier the 1986 Agreements resulted in a blended cost of gas for Manitoba of approximately $2.46/GJ ($2.64/Mcf) if all available discounts are utilized. The blended cost of gas to ICG Greater Winnipeg Gas Company based on forecasts to be taken rather than total discounts available was to be approximately $2.55/GJ ($2.73/Mcf). These blended prices were obtained by factoring discounts available only to large volume users into the price paid by core customers (*) which price was unchanged from the existing Alberta Border Price of $2.79804/GJ (the last price established under administered prices).

(*) "core customers" - residential and small commercial customers

The 1986 Agreements also provided for protection from any increase in TCPL tolls. Increases/decreases in TCPL tolls, as approved by the National Energy Board (NEB), would not be passed on to consumers for the duration of the 1986 Agreements.

With respect to "prudency" which was the first issue identified by the Board, the Board found that "in light of the numerous constraints on the Companies [as identified in the Board's report to the Minister], the superior bargaining position of TCPL/WGML and the necessity of ensuring that natural gas continued to flow as of November 1, 1986 that the Companies having failed to act during the summer of 1986 [i.e. test the constraints and/or seek the Government's assistance] had no choice but to sign the GPA."

With respect to "undue discrimination" which was the second issue identified, the Board found that the collection of the Motive Fuel Tax (MFT) from only the core customers was unduly discriminatory and accordingly, ordered the rates to be adjusted to reflect the collection of the MFT from all consumers. This adjustment reduced rates slightly for the core customers where as stated earlier no reduction was planned. Accordingly, core customers' rates were reduced and the large volume consumers' rates were increased.

The Board approved the 1986 Agreements for one (1) year only ending October 31, 1987 and recommended that the Companies work with the Province, TCPL/WGML and others for the removal of the identified constraints and the acquisition of a gas supply for all consumers at competitive market prices. The Board required the Companies to develop and lay before it, prior to July 30, 1987 a proposed gas purchasing plan and contract portfolio, tender documents and gas purchasing agreements. These documents were to be such that the Company may call for

tenders for a portion or all of its gas supply at such time as it may be instructed by the Board. For reasons to be discussed later, this filing was postponed to March 1, 1988.

Regarding the various discount funds available to large volume consumers the Board found that such discounts may result in rates that are unduly discriminatory. The Board recognized the value of retaining these customers on the Companies' supply system and the negative impact when these customers are able to arrange a direct purchase in Alberta thereby, lowering the Companies' load factor (*) and accordingly, increasing the costs to be paid by the remaining customers.

The Board required the Companies to file with it for approval all CMP discounts and details of these are provided under each Companies' heading.

As time progressed in the transition period to fully deregulated prices it became evident that the constraints identified by the Board were not being removed. Also, the Board observed the undertakings of the Province of Manitoba to acquire ownership of the Companies and also, to acquire a lower priced supply of gas as agent for all Manitoba consumers not desirous or unable to buy gas directly. The Company proposed to file these documents on the basis that the Board treat certain matters confidentially. The Board denied this request and requested the Companies to delete the sensitive material and refile. This filing date is March 1, 1988.

In the meantime the Companies together with the Province of Manitoba were negotiating amended agreements with TCPL/WGML entitled the "1987 Agreements", which would establish rates effective November 1, 1987 taking into consideration the concerns raised by the Board in its Report to the Minister and its subsequent Orders.

(*) "load factor" - the ratio of the average use, during a specified time interval, to the peak use during the same time interval. May be calculated on daily, weekly, monthly, or annual basis.

The 1987 Agreements

On October 30, 1987 the Companies applied to the Board for interim ex parte orders approving a new schedule of rates flowing from its amended Gas Pricing Agreements (the 1987 Agreements) with TCPL for the period November 1, 1987 to October 31, 1988.

The Board, noting that the Companies' existing rates expired on October 31, 1988 and noting that the applications before it provided for lower prices, approved the Companies' applications in Interim Ex Parte Order No. 155/87 for GWG and 154/87 for ICG dated October 30, 1987 on the basis that such Orders would be confirmed or otherwise following public hearings. Subsequently separate hearings were held for GWG and ICG on November 26th and December 1st, 1987.

The net result of the 1987 Agreements was to reduce the commodity cost of gas at the Alberta Border from $2.76/GJ to $2.21/GJ. After taking into account various credits as noted hereunder the commodity cost of gas to the core customer was reduced further as noted hereunder:

	ICG Greater Winnipeg Gas Company	ICG Utilities (Manitoba) Ltd.
Base Price	$2.21/GJ	$2.21/GJ
Market Optimization Credit	.07/GJ	--
	$2.14/GJ	$2.21/GJ
Toll Protection	.07/GJ	.08/GJ
	$2.07/GJ*	$2.13/GJ**

* (Approximately $2.20/Mcf)

** (Approximately $2.26/Mcf)

Other than price, the Board noted that these 1987 Agreements also provided that:

". With the exception of third party Competitive Marketing Programs (CMPs), streaming of gas supply is eliminated i.e. all customers will be charged the same commodity price of gas.

. TCPL has agreed to review its CMP procedure with the Company.

. The Agreements and letter of understanding between the Company and the Province ... provide for renegotiation to develop a flexible portfolio of both supply arrangements and transportation arrangements after November 1, 1988, including tendering for gas supply.

. The Company is able to tender for all its peaking supplies for the period from November 1, 1987 to October 31, 1988 under these Agreements.

. With the exception of the Board's approval, all other conditions precedent contained in the Precedent Agreement have been satisfied. This Order will satisfy the last outstanding condition precedent."

Having reviewed the evidence the Board, in Order Nos. 175/87 and 176/87 for ICG and GWG respectively each dated December 29, 1987 found that the rates proposed "are not discriminatory and that the supply of gas at a reasonable cost will be assured for the period November 1, 1987 to October 31, 1988".

The Board, having issued Interim Ex Parte Order No. 154/87 and 155/87 approving rates effective November 1, 1987, confirmed the rates in Order Nos. 175/87 and 176/87 with some minor adjustments.

Leading up to the signing of the 1987 Agreements, the Board noted that the Province of Manitoba made special efforts to bring the cost of gas down by actively participating in the negotiations

with the Companies and TCPL/WGML. Concurrently, the Government passed legislation to, amongst other things, establish a new crown corporation to manage the to be acquired Companies. Furthermore, the Province entered into "buy-sell arrangements"(*) with the Companies for the transportation of the Province's own natural gas supply on the distribution network to Government owned buildings.

The Board, in its 1986 Annual Report, noted that it would be conducting a hearing in the near future relating to the criteria by which "buy-sell arrangements" would occur. In this respect the Board issued Interim Ex Parte Order No. 71/87 dated April 15, 1987 approving "buy-sell arrangement" criteria for both Companies. The Board was aware that certain of the "buy-sell arrangement" criteria as proposed by the Companies was felt by some members of the industry to be too onerous. Accordingly, on an "interim basis" the Board suspended certain criteria relating to penalties for not taking pre-determined quantities of natural gas, to administrative costs and to the requirement for telemetering equipment. The suspension was only to be in effect until the Board was able to deal with the matter in a final way.

Following its public hearings held on May 20 and 21, 1987, the Board issued Order No. 119/87 dated July 21, 1987 dealing with the "buy-sell arrangement" criteria in a final way. The Board in its decision provided the parameters under which "buy-sell arrangements" were to occur. It approved the provisions for penalties and administration costs but waived the requirement for telemetering equipment. Details of "buy-sell arrangements" that were entered into in the 1987 year are provided under each Company heading.

* "buy-sell arrangement" - is an arrangement whereby the consumer who purchases natural gas directly from a producer in Alberta and/or a broker in Manitoba or any other province would be required to resell ownership of the gas to the utility where it enters the distribution system.

Pursuant to the 1987 Agreements and relating to the three (3) party CMP Agreements entered into by TCPL, the Companies and a customer, the Board noted that one condition of the proposed 1987 Agreement was that, while the termination date of the 1987 Agreement was October 31, 1988 TCPL had undertaken "to immediately investigate alternate gas pricing arrangements with the customers with a view to implementing new arrangements which will not involve the Company but will achieve the same commercial results". TCPL anticipated that such new arrangements would be in place on or before December 31, 1987.

In the middle of December the Companies together with TCPL filed an alternative gas pricing arrangement that would move the exchange of the discount to the Alberta Border between the customer and TCPL only. As this would involve several new Agreements TCPL asked that any CMP Agreement approved by the Board to date be extended to January 15, 1988.

Details of such Orders of the Board approving CMP Agreements on this basis are noted under each Companies' heading.

Although not specifically related to matters under the Board's jurisdiction, the Board further noted in the period of this report, the application of the Province of Manitoba to the NEB for an order requiring TCPL to transport the Province's supply of gas purchased directly and on behalf of all consumers in Manitoba (excepting those consumers desirous of entering into direct purchases). TCPL opposed the application on the basis that, amongst other things, the Province's supply displaces the current supply of the Companies which contravenes the intent of the October agreement. The NEB in a decision released in September of 1987 declined the Province's application which decision is subject of an appeal to the Federal Court of Appeal. If the Province is to be successful in this process the Board understands that the commodity price of gas for Manitoba will be lower.

GREATER WINNIPEG GAS COMPANY

Dealing with the 1986 and 1987 Agreements referred to under the heading "General", the Board issued Order Nos. 89/87 dated May 13, 1987, 97/87 dated June 5, 1987, 109/87 dated July 3, 1987 and 129/87 dated September 2, 1987 regarding the 1986 Agreements and Order Nos. 155/87 dated October 30, 1987 and 175/87 dated December 29, 1987 regarding the 1987 Agreements.

With respect to the 1986 Agreements, the revised rates were approved by the Board effective June 1, 1987. These rates reflected lower prices to consumers retroactive to November 1, 1986. Subsequent Orders dealt with matters for clarification. With respect to the 1987 Agreements, revised rates were approved effective November 1, 1987.

Details of the savings for residential and commercial consumers are shown in Table 1. For residential customers also see Figure 1. Details of the CMP discounts and Market Discount Fund (MDF) discounts flowing from the Agreements are shown in Table 2.

The Greater Winnipeg Gas Company (the Company) in 1987 made application to the Board for an order determining rate base, rate of return and rates based on a 1986 historical test year. The Company's rate base was last reviewed for the year ending December 31, 1983.

The Company sought the Board's approval of property, plant and equipment amounting to $122,988,069 (an increase from that allowed in 1983 of $105,057,273) and of an increase in its allowed overall rate of return to 12.75% from 12.65% which included retention of its currently allowed rate of return on equity of 14.25%. The Company sought approval of a revenue requirement of $221,519,400.

The Company also sought the Board's approval for a change in its rate structure for the residential and small commercial customers. The proposed rate structure included an increase in the minimum bill (fixed charge) for residential and commercial customers to $6.25 and $18.75 from $5.00 and $15.00 per month respectively. The individual rate steps were to be consolidated for ease of understanding.

These proposed changes in total, if approved by the Board would change the average annual heating costs for residential, commercial and industrial customers by +4.8%, -1.2% and -4.8% respectively.

After considering all the evidence the Board in Order No. 123/87 dated August 10, 1987 and subsequently 125/87 dated August 27, 1987 approved an amount of $122,522,000 for the Company's property, plant and equipment, a decrease in the Company's return on equity to 13.25% which results in an approved overall rate of return of 12.35% and a revenue requirement of $219,261,060 of which approximately 75% is related to cost of gas.

The Company's revenue deficiency as noted in the application was adjusted downwards by the Board from $2,343,945 to $29,666.

The Company was ordered to revise its rate schedule based on the Board's decision which rates are to be effective September 1, 1987. As a result of the Board's decision the average residential, commercial and industrial customer's bill will change by approximately +3.7%, -1.9% and -6.4% respectively.

In approving increases for residential customers and decreases for commercial and industrial customers the Board recognized that those

customers in the residential sector were contributing only 91% of their cost of service and that the commercial and industrial customers were contributing 106% and 113% respectively. Cost of service studies are used by the Board only as a tool in establishing fair and equitable rates for customer classes. The Board has determined that the zone of reasonableness is 95% to 105%. In consequence it approved rate changes which would move these customer classes closer to the range. It is noted that although these customer classes have been outside the range for sometime, the Board approved changes that address these concerns, mostly from industry, on a gradual basis.

The impact of these changes in rates has been reflected in Table 1. The rates approved by the Board were effective on September 1, 1987 and expired on October 31, 1987. The Board in Order No. 125/87 stated:

> "Pursuant to Board Order Nos. 89/87 and 97/87, the Board anticipated that the Company would have obtained a lower price of gas from its suppliers for the period commencing November 1, 1987 and consequently, only approved rates up to October 31, 1987.
>
> The Board still anticipates an application from the Company incorporating a lower commodity cost of gas for all classes of customers and accordingly will approve gas rates to October 31, [1987] only."

In Order Nos. 145/87, 146/87 and 147/87 all dated October 23, 1987 and 158/87 dated October 30, 1987, the Board approved "buy-sell arrangements" for the Province of Manitoba, Joseph E. Seagram and Sons Limited, Domtar Inc., The British Columbia Sugar Refining Company Limited and Manitoba Rolling Mills, A Unit of AMC International Limited, respectively.

The Board in Order No. 114/87 dated July 15, 1987 approved an application made by the Company to introduce The Salute to Seniors Program which program waived the late payment charge to assist Seniors who may run into a situation where the due date on the gas bill falls a few days before the receipt their pension income cheques. The intent is to waive the late payment charge in the first month and not indefinitely. Such customers must register with the Company under the program.

Pursuant to Order No. 56/85 which is the Board's Cost Award Order, the Consumers Association of Canada (Manitoba) (CAC) and the Manitoba Society of Seniors (MSOS) collectively applied to the Board for costs amounting to $21,570.05 relating to their intervention in the Company's rate base, rate of return and rates application. The Board, after considering the application issued Order No. 140/87 awarding $16,155.68 to CAC and MSOS to be paid by the Company.

GREATER WINNIPEG GAS COMPANY

Impact of Rate Changes for Average Consumption Levels

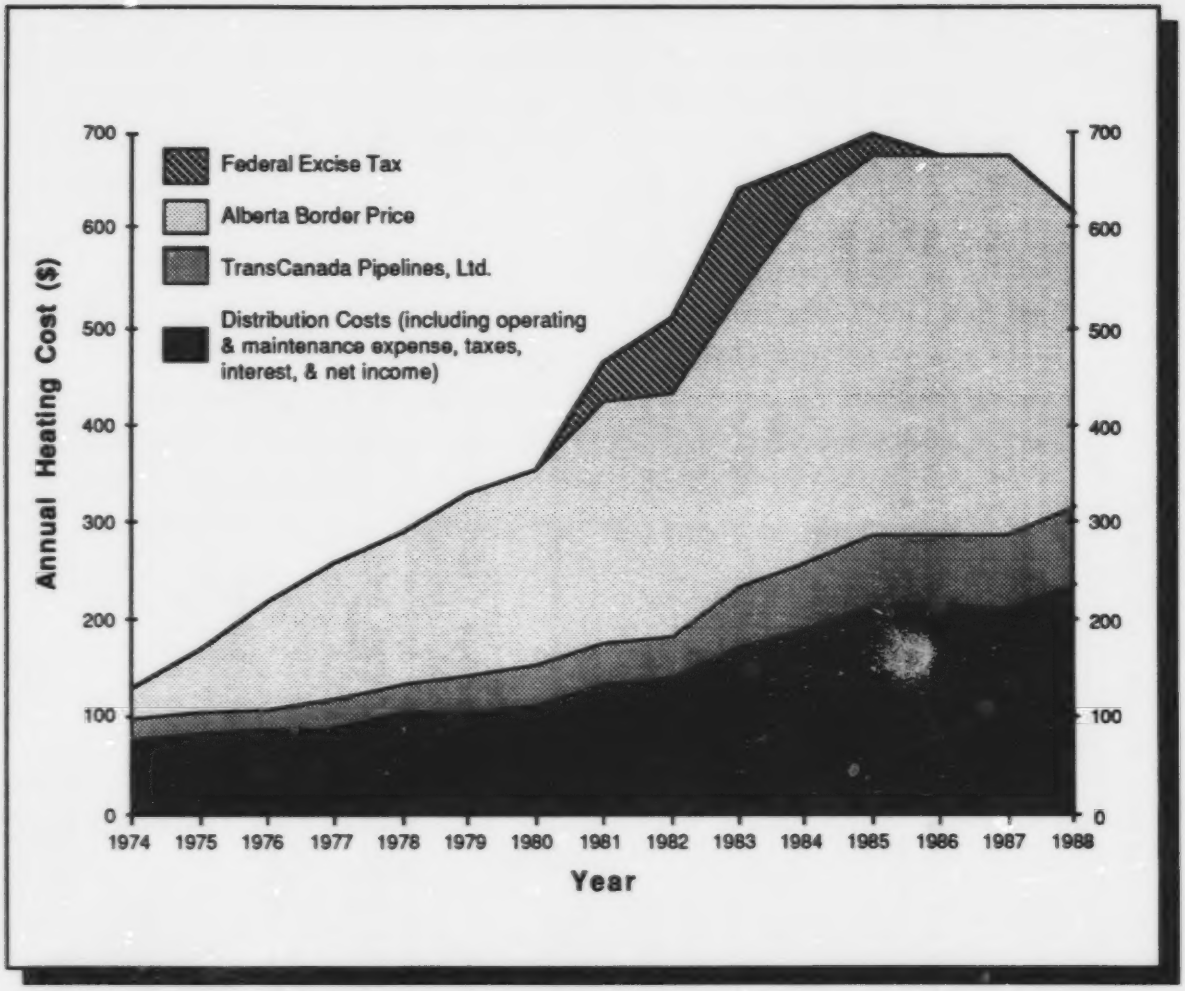
		Average Annual Consumption Mcf	Pre-Nov. 1/86 Annual Rate	1986/87 GPA Annual Rate	1986/87 GPA Annual Rate & General Rate Adjustment (effective Sept. 1, 1987)	1987 Agreements Annual Rate (Proposed)
			Annual Gas Costs - $/year			
1	Residential Space Heat	131.5	680	669	694	612
2	Commercial Space Heat	1,284	5,963	5,859	5,745	4,945
3	Industrial Firm	9,090	40,790	40,054	37,696	32,042
4	Interruptible - large category	260,000	937,586	926,926	867,854	715,000

TABLE 1
(excerpt from the Company's application - Exhibit No. 10)

Impact of Deregulation

		Average Annual Consumption Mcf	Net Change Pre-Nov 1/86 Annual Rate vs 1987 Agreements Annual Rate $/year	General Rate Application Change Due to GRA $/year	Toll Protection* $/year	Total Impact of Deregulation $/year
5	Residential Space Heat	131.5	68	25	10	103
6	Commercial Space Heat	1,284	1,018	(114)	103	1,007

* cost avoidance due to signing of Pricing Agreements.



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities—Greater Winnipeg Gas Company

Based on usage of 130 Mcf/year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 142 Mcf/year in 1975. At January 1, 1988 rates, 142 Mcf would cost $660

TABLE 2

ICG Utilities - Greater Winnipeg Gas Company

COMPETITIVE MARKETING PROGRAM (CMP) DISCOUNTS

COMPANY	PERIOD OF DISCOUNT	DISCOUNT - $/GJ
John Labatt Ltd.	January 1 to July 31, 1987	$0.65
	December 1 - 31, 1987	0.73922
Domtar	November 1 to December 31, 1987	0.73922
Maple Leaf Mills	December 1 to 31, 1987	0.63922
Red River Brick	December 1 to 31, 1987	0.63922
Custom Abbatoir	December 1 to 31, 1987	0.73922
East West Packers	December 1 to 31, 1987	0.73922
Ogilvie Mills	December 1 to 31, 1987	0.73922
Perths	December 1 to 31, 1987	0.73922
Sunshine Uniform	December 1 to 31, 1987	0.73922

Total Amount of Gas Discounted - 167,671 GJ
Total Value of Discount - $118,368.23
Average Value of Discount - $0.706 per GJ
- $0.745 per Mcf

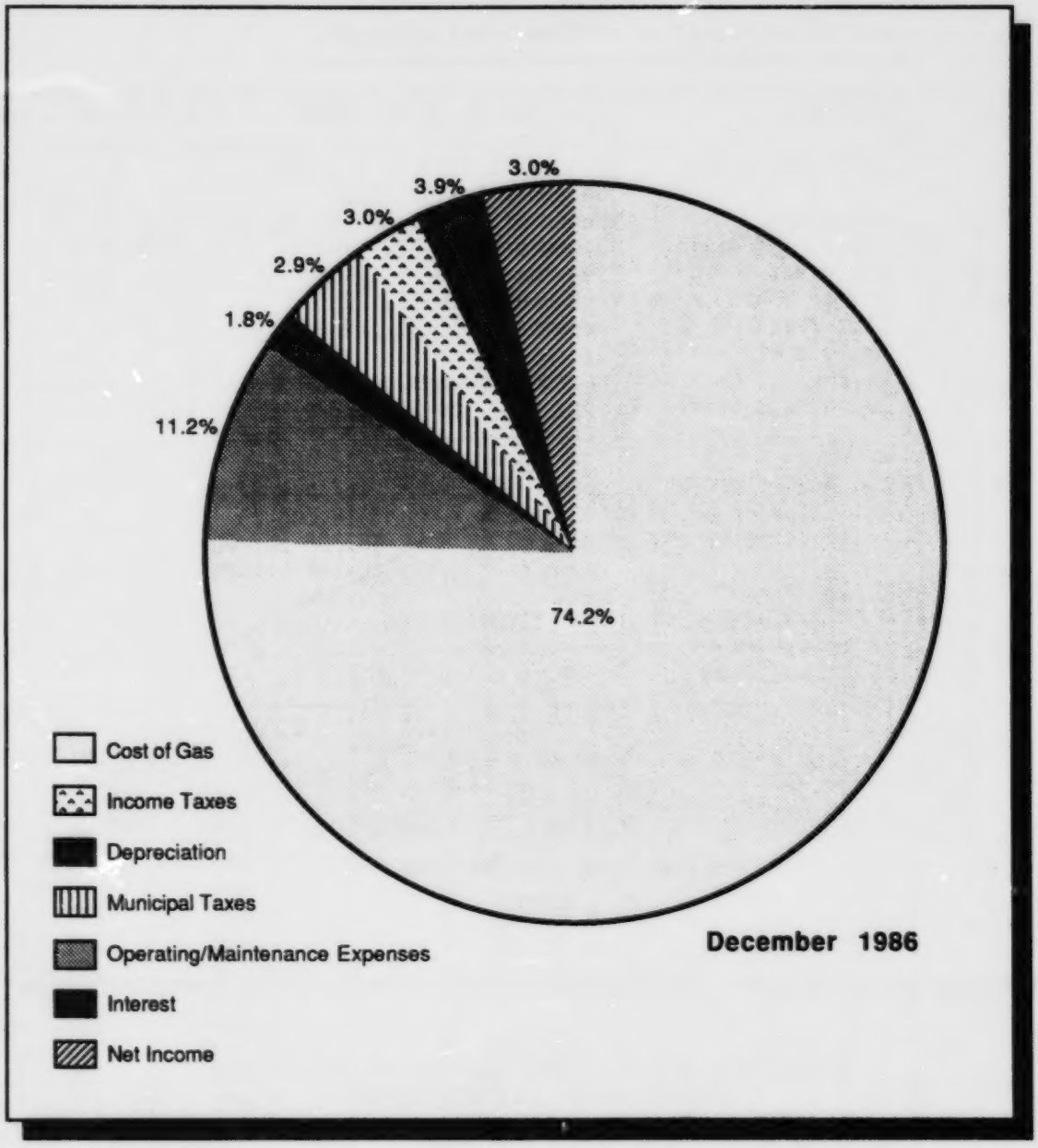
MARKET DISCOUNT FUND (MDF) DISCOUNTS

(Effective November 1, 1986 to October 31, 1987)

CUSTOMER CATEGORY	NUMBER	DISCOUNT $/GJ	TOTAL DISCOUNT
Large Volume - Interruptible	1	$0.341	$ 50,452.20
	2	0.351	85,462.23
	3	0.379	125,817.60
	1	0.408	79,061.95
	2	0.427	242,033.40
	1	0.484	139,454.40
	1	0.559	119,293.28
	1	0.635	159,530.35
	1	0.654	248,344.80
	1	0.759	353,896.00
	1	0.778	420,256.56
	2	0.891	936,447.74
Large Volume - Firm	1	0.341	34,002.63
Medium Volume - Interruptible	22	0.322	577,792.70
Medium Volume - Firm	8	0.322	145,452.68
Small Volume - Interruptible	28	0.180	177,187.24
Small Volume - Firm	40	0.180	233,535.38
Total All Categories	116		$4,128,021.04

Total Amount of Gas Discounted - 9,294,250 GJ
Total Value of Discount - $4,128,021.04
Average Value of Discount - $0.444 per GJ
- $0.468 per Mcf

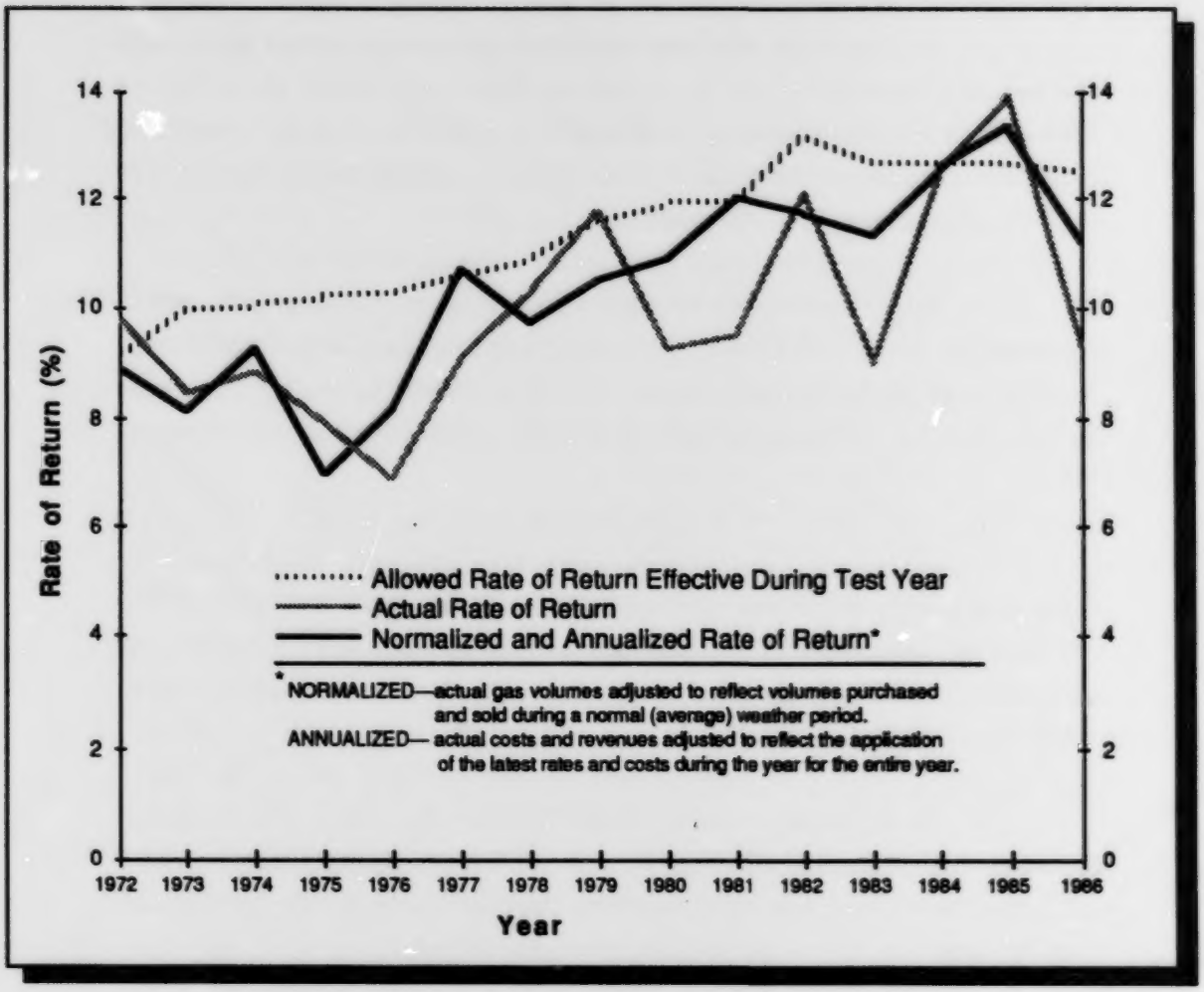
FIGURE 2



DISTRIBUTION OF GAS UTILITY REVENUE
ICG Utilities—Greater Winnipeg Gas Company

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

FIGURE 3



RATE OF RETURN ON RATE BASE
for
ICG Utilities—Greater Winnipeg Gas Company

Note: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., Investment in property, Plant and equipment

Dealing with the 1986 and 1987 Agreements referred to under the heading "General", the Board issued Order Nos. 89/87 dated May 13, 1987 and 98/87 dated June 5, 1987 dealing with the 1986 Agreements and Order Nos. 154/87 dated October 30, 1987 and 176/87 dated December 29, 1987 regarding the 1987 Agreements.

With respect to the 1986 Agreements revised rates were approved by the Board effective June 1, 1987. These rates reflected lower prices to consumers retroactive to November 1, 1986. With respect to the 1987 Agreements revised rates were approved effective November 1, 1987.

Details of the savings under the 1986 and 1987 Agreements for residential and commercial consumers are shown in Table 3. For residential consumers also see Figures 4, 5 and 6. Details of the CMP discounts and MDF discounts flowing from the Agreements are shown in Table 4.

In Order Nos. 156/87 dated October 30, 1987, 162/87 dated November 13, 1987, 177/87, 179/87 and 181/87 all dated December 22, 1987 the Board approved CMP discounts for Carnation Foods Co. Ltd., Simplot Chemical Co. Ltd. and Beatrice Foods Inc.

The Board, in Order Nos. 127/87 and 128/87 both dated August 31, 1987, approved "buy-sell arrangements" for Mohawk Oil Company Limited and the Province of Manitoba respectively.

The Board approved a Salute to Seniors Program in its Order Nos. 115/87 and 183/87. Board Order No. 115/87 dealt with the

matter on an interim ex parte basis and the Board, in Order No. 183/87 confirmed its decision following public hearings on this and other matters. Details of the Salute to Seniors Program can be found under the heading "Greater Winnipeg Gas Company".

The City of Brandon together with the Company applied to the Board on October 8th and October 23rd, 1987 respectively for approval of their Franchise Extension Agreement (Franchise). The Franchise was for a period of ten (10) years commencing on November 1, 1987. The Board issued Interim Ex Parte Order No. 149/87 dated October 26, 1987 and subsequently after a public hearing held on December 1, 1987 issued Order No. 185/87 dated December 22, 1987 approving the Franchise on the terms requested.

The Company made application to the Board to extend its existing franchise area in the R. M. of Cornwallis to include inhabitants of Township 10 Range 17 West. Following its review of the evidence the Board issued Interim Ex Parte Order No. 150/87 dated October 26, 1987 approving the said extension and subsequently after a public hearing held on December 1, 1987 issued Order No. 185/87 dated December 22, 1987 confirming its Interim Ex Parte Order.

The Company did not apply for an increase in rates in 1987, as a result of changes in its rate base for 1986. The Company's rate base was last examined for the year ending December 31, 1985.

TABLE 3
(excerpt from the Company's application - Exhibit No. 14)

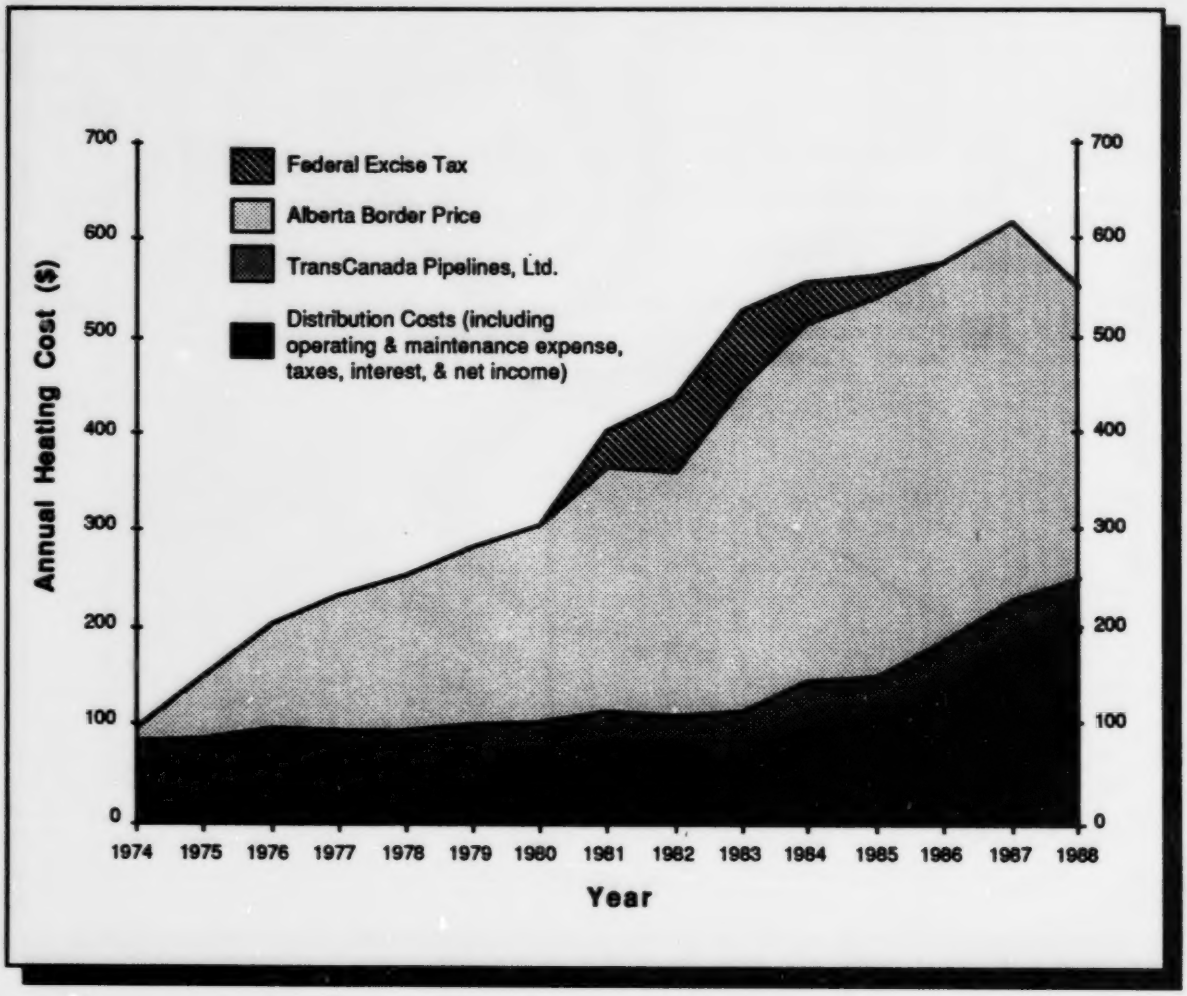
ICG UTILITIES (MANITOBA) LTD.
IMPACT OF RATE CHANGES FOR
AVERAGE CONSUMPTION LEVELS

			PRE-NOV. 1/86 RATES	1986/87 GPA ANNUAL RATES	1987 AGREEMENTS ANNUAL RATES PROPOSED
RESIDENTIAL & SMALL COMMERCIAL :					
BRANDON	- FIRST 1 MCF PER MONTH		$6.200	$6.145	$5.580
	- BALANCE		$4.575	$4.520	$3.955
SOUTHEAST	- FIRST 1 MCF PER MONTH		$8.500	$8.445	$7.880
	- BALANCE		$4.575	$4.520	$3.955
ICG DIVISIONS	- FIRST 1 MCF PER MONTH		$10.750	$10.695	$10.130
	- BALANCE		$4.710	$4.655	$4.090
LARGE COMMERCIAL & INDUSTRIAL :					
ALL DIVISIONS	- FIXED MONTHLY CHARGE		$21.00	$21.00	$21.00
	- COMMODITY CHARGE		$4.710	$4.655	$4.090

		AVERAGE ANNUAL CONSUMPTION (in Mcf)	Annual Gas Costs per Year			Net Change Nov./87 vs. Nov./86	Toll Protection	Impact of Deregulation *
RESIDENTIAL:	BRANDON	130	$614	$607	$534	$80	$10	$90
	SOUTHEAST		$642	$635	$561	$81	$10	$91
	ICG DIVISIONS		$685	$678	$604	$81	$10	$91
SMALL COMMERCIAL:	BRANDON	348	$1,612	$1,592	$1,396	$216	$27	$243
	SOUTHEAST		$1,639	$1,620	$1,423	$216	$27	$243
	ICG DIVISIONS		$1,712	$1,692	$1,496	$216	$27	$243
LARGE COMMERCIAL:		1,388	$6,789	$6,713	$5,929	$860	$111	$971
INDUSTRIAL:		3,644	$17,415	$17,215	$15,156			

* Cost avoidance due to signing Pricing Agreements

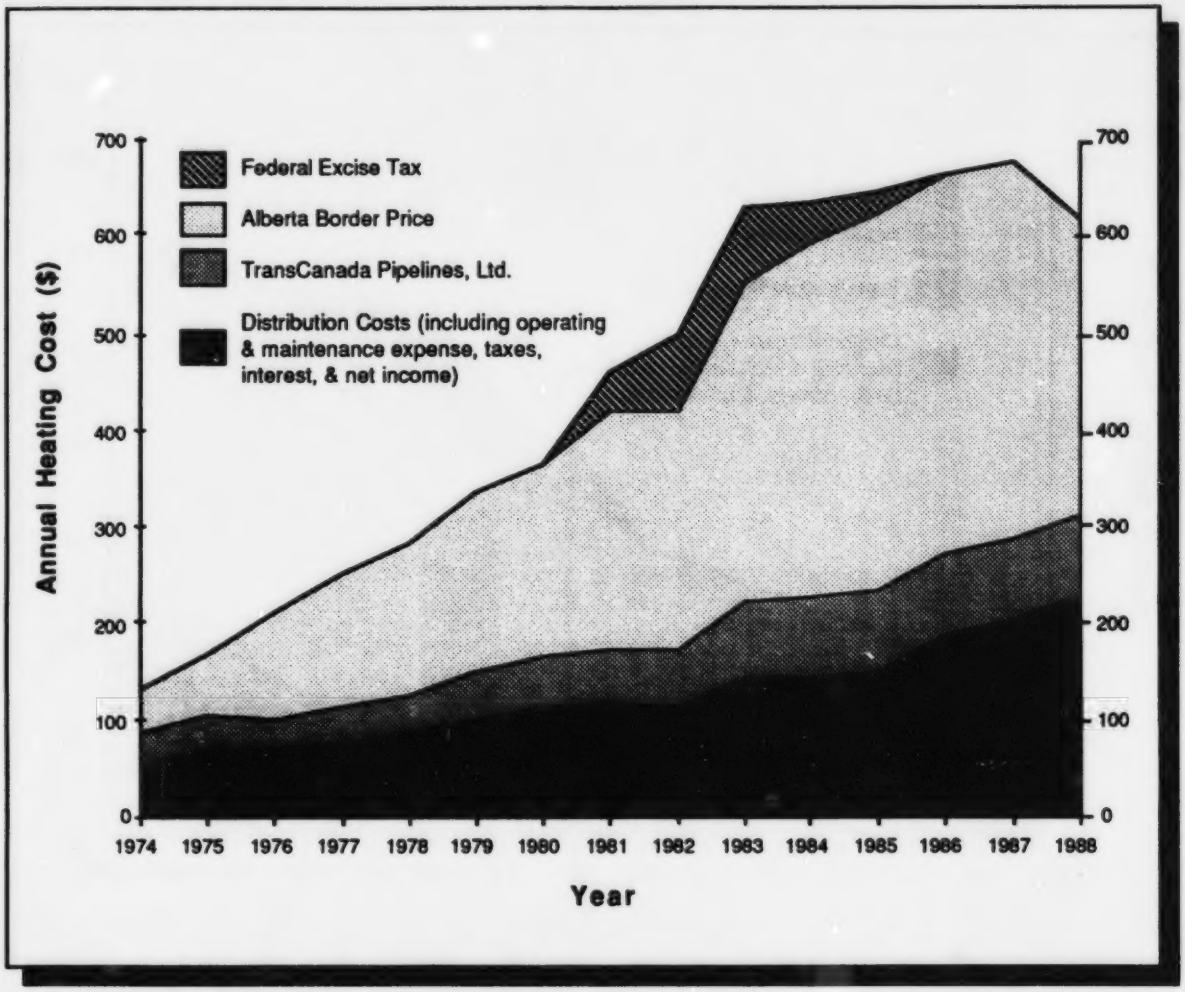
FIGURE 4



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Brandon Division
(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 130 mcf/year



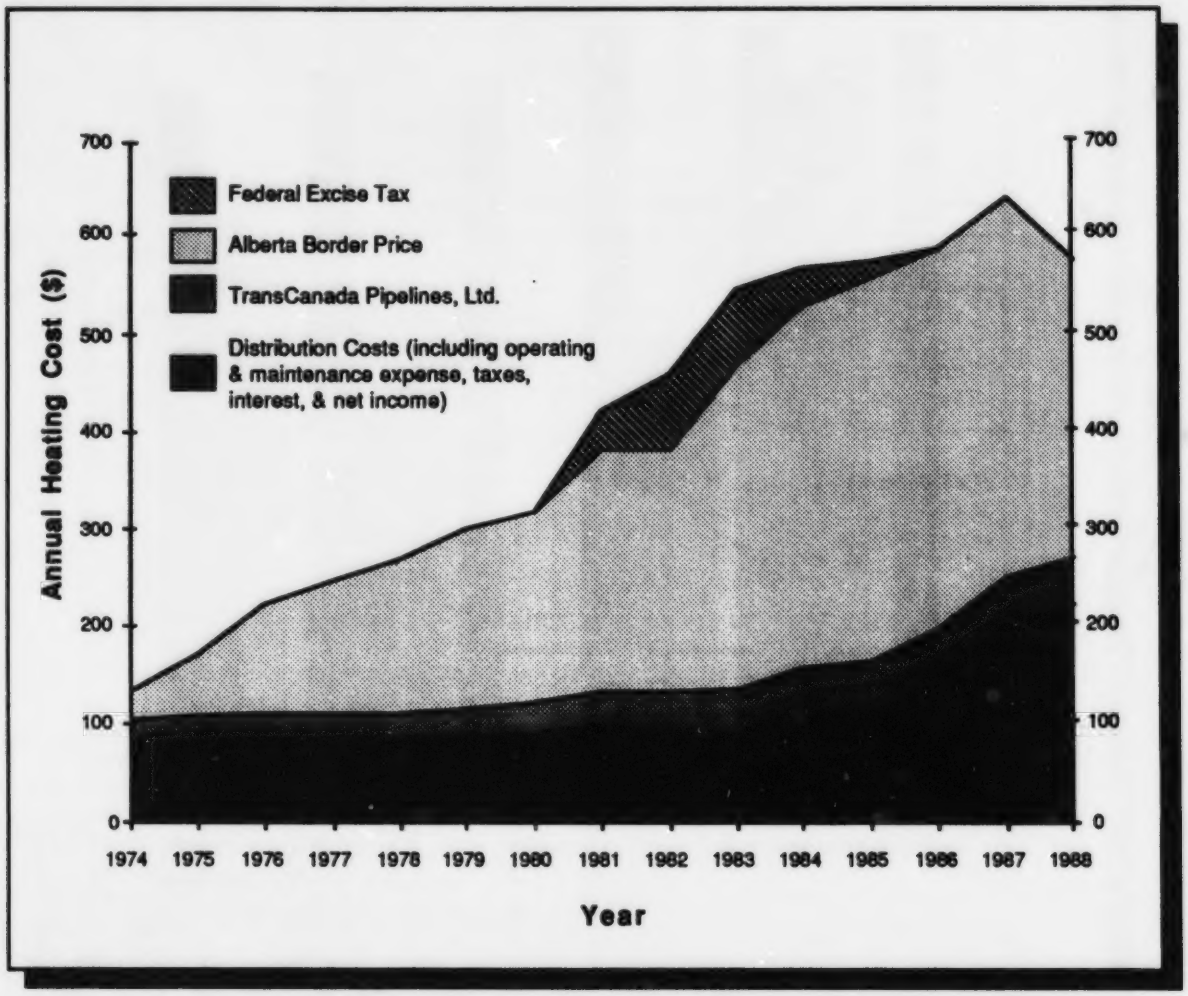
ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
ICGUL Division

(Includes communities of Binscarth, Dauphin, Gilbert Plains, Grandview, Grunthal, Hamiota, Inglis, MacGregor, Miniota, Minnedosa, Mitchell, Neepawa, New Bothwell, Niverville, Otterburne, Portage la Prairie, Rivers, Roblin, Russell, Ste. Anne, Steinbach, St. Claude, St. Lazare, St. Pierre, and Virden)

Based on Usage of 130 mcf/year

FIGURE 6



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Carberry/Southeast Division

(Includes communities of Altona, Carberry, Carman, Dominion City, Elm Creek, Emerson, Letellier, Morden, Morris, Plum Coulee, St. Jean, St. Joseph, and Winkler)

Based on Usage of 130 mcf/year

TABLE 4

ICG Utilities (Manitoba) Ltd.

COMPETITIVE MARKETING PROGRAM (CMP) DISCOUNTS

COMPANY	PERIOD OF DISCOUNT	DISCOUNT - $/GJ
Campbell Soup	January 1 to July 31, 1987	$0.45
Simplot Chemicals	November 1 to December 31, 1987	0.727
Carnation Foods	November 1 to December 31, 1987	0.727
Beatrice Foods Inc.	December 1 - 31, 1987	0.627

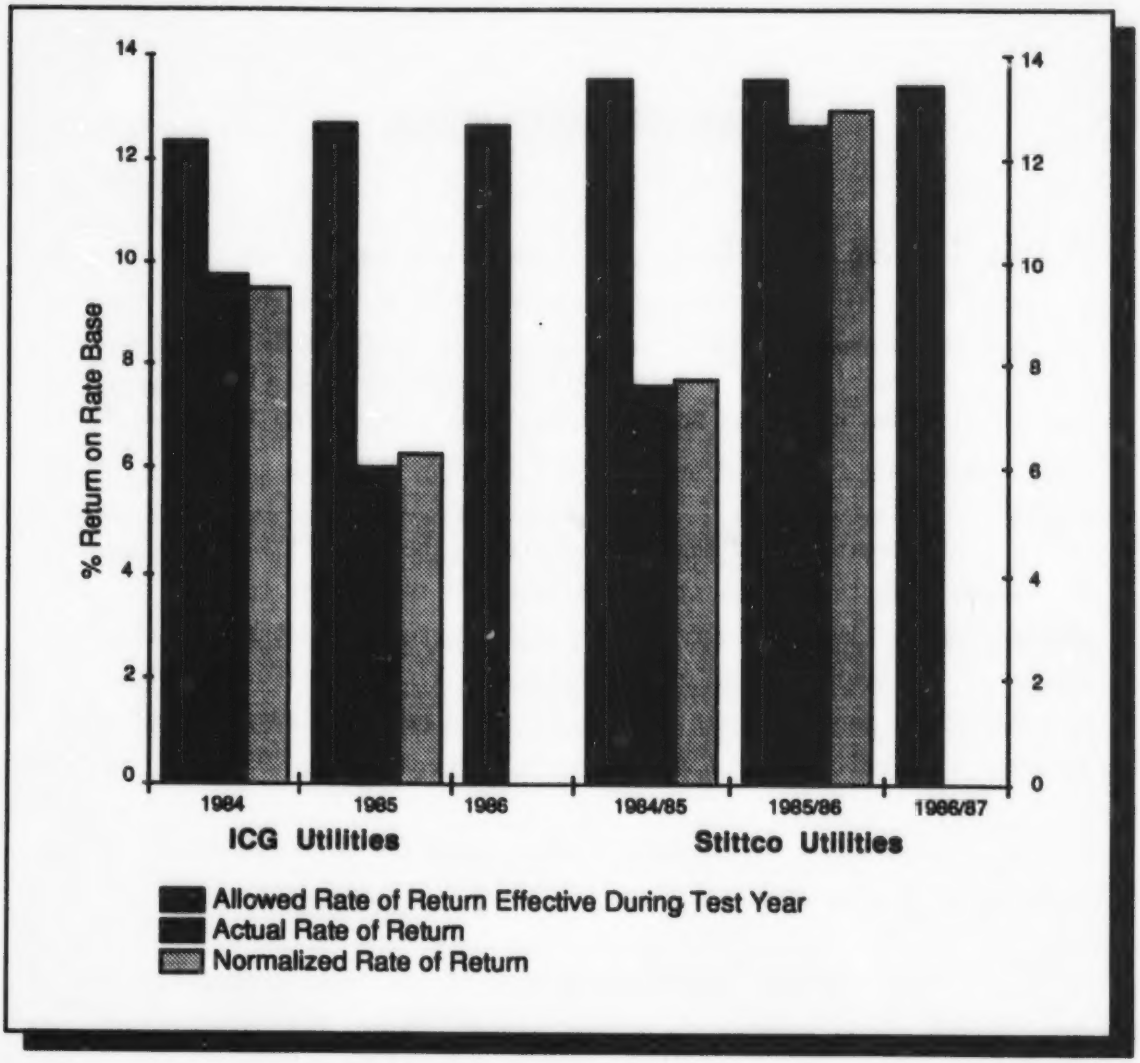
Total Amount of Gas Discounted - 257,275 GJ
Total Value of Discount - $161,338.36
Average Value of Discount - $0.627 per GJ
- $0.66 per Mcf

MARKET DISCOUNT FUND (MDF) DISCOUNTS

(Effective November 1, 1986 to October 31, 1987)

CUSTOMER CATEGORY	NUMBER	DISCOUNT $/GJ	TOTAL DISCOUNT
All Categories	16	0.142	$ 51,324.75
	9	0.284	177,453.30
	1	0.417	94,931.32
	1	0.436	80,574.98
	2	0.484	300,504.75
	1	0.550	119,689.38
	1	0.853	169,263.00
Total All Categories	31		$993,741.48

Total Amount of Gas Discounted - 2,434,313 GJ
Total Value of Discount - $993,741.48
Average Value of Discount - $0.409 per GJ
- $0.431 per Mcf



RATE OF RETURN ON RATE BASE
for
ICG Utilities (Manitoba) Ltd
and.
Stittco Utilities Man Ltd.

Note: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, plant and equipment

Actual and normalized rates are not available for 1986, as no rate base rate of return applications were heard in 1987

PROPANE GAS DISTRIBUTION UTILITY

STITTCO UTILITIES MAN. LTD.

On May 11, 1987 Steelgas Utilities of Manitoba Ltd., on their initiative requested Board approval for a reduction in rates resulting from a reduced purchase price for propane.

Steelgas stated that a decrease in the overall market price of propane prompted a request to its supplier and parent company, Stittco Energy Limited, to renegotiate their present contract which was to expire September 30, 1987. Following a testing of the market by calling for tenders, Steelgas negotiated a new firm propane supply contract with Stittco for a period ending September 30, 1988.

The average annual energy cost reduction for residential and commercial consumers would be 7.83% and 4.61% respectively.

Other changes included combining of the small commercial and optional large commercial service categories and the reduction of the interest rate on outstanding accounts from 2% to 1 1/2%.

On June 11, 1987 the Board issued Interim Ex Parte Order No. 102/87 which approved the application effective May 1, 1987.

By letter dated September 23, 1987 the Board was advised that the Company was changing its Corporate name from Steelgas Utilities of Manitoba Ltd. to Stittco Utilities Man. Ltd.

MANITOBA TELEPHONE SYSTEM

During 1987 the Board issued 34 Orders relating to matters such as improvement of service, introduction of market trials and specific adjustments in the General Tariff of the Manitoba Telephone System (the System or MTS).

On December 30, 1986, the System filed an application with the Board for the approval of adjustments and increases to its existing rates to be effective June 30, 1987 including:

(a) A $0.90 per month increase in residence individual line local service rates in Winnipeg, and a $0.60 per month increase in residence individual line local service rates in all other rate groups.

(b) A $2.20 increase in business individual line local service rates in Winnipeg, and a $0.95 per month increase in all other rate groups.

(c) An average increase of 8.5% in service connection charges.

(d) A $0.02 per minute increase in usage charge and a $0.01 increase in the call set up charge for intra-provincial toll calls.

(e) A restructuring of interprovincial toll rates resulting in an increase in rates for long distance calls for shorter distances and a decrease in rates for longer distances resulting in an overall general rate decrease for interprovincial toll calling averaging approximately 4.4%.

The Board, in its 1986 Annual Report, noted that the System applied to the Board for an order approving its rates on an interim basis effective April 1, 1987 and without a hearing. The Board denied this request stating that it was the Board's intention:

> "to expedite matters leading up to the hearing in order that a decision of the Board can be made as soon as possible."

At a pre-hearing conference held by the Board on January 26, 1987, the System made application to the Board for an interim rate increase on the basis of a hearing to be held prior to April 1, 1987. This application was denied. The Board felt that the issue of any losses associated with MTX and its impact on rates, if any, was too significant to be considered on an interim ex parte basis or on an interim basis following a hearing.

On April 6th to 11th, 1987 inclusive, the Board held its public hearing with respect to the System's application.

On behalf of Manitoba Anti-Poverty Organization and Manitoba Society of Seniors (Consumers), Counsel introduced a motion that MTX losses and the resulting revenue requirements of the System be excluded from consideration as a factor in determining rates. Counsel questioned the prudency of the investments in the MTX operations, suggesting that the resulting financial impact of MTX losses "stand alone" outside the revenue requirement of the System.

The Board, in its Order No. 94/87 dated May 28, 1987, dealt with the System's application and with the Motion of Consumers.

With respect to the Motion, the Board noted that:

"The evidence before the Board does not indicate that the operations of MTX fall outside the parameters of "public utility" as defined by the Act in Section 2(1)(h). Therefore the Board considers that it does have jurisdiction to consider the financial impact of MTS's involvement in MTX."

and furthermore

"In view of the testimony of the witnesses, the Board concludes that MTS extended substantial support to its subsidiary, MTX, with respect to its contracts which therefore do not "stand alone" but rather are integrally tied to MTS's business operations.

The Board is of the opinion that it must consider the overall activities of MTS, taking into account both total income generated and total losses sustained by MTS. The Board concludes that MTS's overall cost in relation to MTX must be considered as part of MTS's ordinary operating business."

The System advised the Board that the wind down of MTX resulted in an estimated $27.4 million decrease in the System's retained earnings and a corresponding increase in its debt base. This decrease was attributed to the 1986 fiscal year results. The increased annual debt charges attributable to the reduction in the System's retained earnings was estimated to be approximately $2.4 million in the 1988 fiscal year.

The Board in its Order stated that:

"The additional debt charge is an integral component of the total borrowing requirements of MTS, and MTS cannot specifically amortize the $27.4 million dollar MTX loss. It can, by increasing annual revenues by a greater amount than would otherwise be the case, recover an amount equivalent to the MTX loss. Accordingly the Board expects MTS, in its next rate application, to present its plan for a course of action to generate increased revenues to eliminate the portion of its debt charges resulting from the MTX loss. The plan should detail the sources of this extra revenue and the time frame within which this

"additional debt charge is to be eliminated.

The Board accepts that the MTX losses and the subsequent impact on MTS must be considered as part of its overall revenue requirements in this application."

The General Rate Application of the System indicated that for the 1986/87 fiscal year it incurred a deficit of $19.1 million. The System further stated that the requested rate increases were necessary to ensure that the System did not incur a significant deficit in the 1987/88 fiscal year and indicated that a greater rate increase at that time would have been unacceptable to its subscribers.

The Board in Order No. 94/87, noted that although the requested rate increase would not contribute significantly to the System's long term financial goals, it would generate sufficient revenue to ensure that the System did not incur a deficit in 1988.

Without the requested rate increase the System projected a net loss of $14.1 million for 1988. The rate increase, if put into effect June 1, 1987, is expected to generate $15.5 million in additional revenue resulting in a projected net income of $1.4 million for the 1988 fiscal year.

The following table sets out the details of debt/equity ratio and debt coverage reported to the Board:

	Debt/Equity Ratio (*)	Interest Coverage (**)
Financial Objective	1.0% reduction annually	1.25 to 1.30
1987 estimate	83.9%	0.99
1987 actual	91.0%	0.80
1988 (no rate increase)	93.3%	0.83
1988 (with rate increase)	91.3%	1.02

(*) The higher the number the higher the debt component.

(**) The lower the number the lower the income to cover the debt expense.

MTS indicated that for the the 1988 fiscal year it planned a $165.0 million construction program which was a 6.5% increase over the fiscal 1987 program of $155.0 million. The increase was attributable to a 4.1% inflation rate and an increased demand for telecommunication services. The Board noted that in constant dollars their 1978 program was larger, while, in actual dollars the 1988 program was the most ambitious the System had ever undertaken.

MTS stated that its construction program is related to demand requirements of subscribers for better and additional telecommunication services and program requirements for the improvement of operational efficiencies. Of the $165.0 million program; $113.2 million is related to demand requirements, $48.1 million for program requirements and $3.7 million for contingencies.

The Board noted that one of the goals was to provide a state of the art telecommunication system. The Board expressed its concern that these high costs of modification will require the average residential subscriber to pay ever increasing rates for basic service in order to provide the revenues required to support these construction programs. The Board was further concerned by the application which showed an ever shrinking portion of overall revenues accruing from interprovincial toll charges.

In its decision the Board stated that:

> "Some 30.9% of the 1988 capital Program is targeted for rural projects. The Board is of the opinion that the needs of rural subscribers are not being adequately met and places the greatest importance on the survey to be conducted. The Board seeks answers to the question whether system priorities and the distribution of capital resources will meet the needs of the rural subscribers.
>
> MTS witnesses testified that the modernization programs will permit it to reduce its annual operating expenses. The Board expects MTS to include in future applications projections of annual savings in operating expenses related directly to specific elements of the construction programs."

Concerning the System's rating principles and rate objectives, the Board noted that as telecommunication services become increasingly competitive, rate making will require greater emphasis on the application of the rating principles and objectives that address the cost and competitive factors. Concerning this matter the Board said:

> "The Board encourages MTS to place greater emphasis on market evaluation in order to optimize its revenues from the provision of competitive services. It also recommends that causal cost and revenue allocation systems be utilized, so as to provide as clear a definition as possible of cost causation by the various services that MTS provides."

After weighing all the evidence the Board approved the increase in rates with certain changes. With respect to certain business related services the Board noted that a significant rate restructuring was proposed and during its hearing noted that the business community was not represented. The following table summarizes the impacts of the various rate changes:

1987/88 Annualized Rate Application Gains by Category
(In 000's of $)

	Proposed Revenue Gain	% Increase on Service Category
1. Residence	$ 3,888	8.6
2. Individual and Party-line Business	1,039	8.5
3. Multi-Line Business	5,098	9.2
4. Local Private Line	254	9.5
5. Service Charges	772	8.5
6. Intra Toll	5,672	8.1
7. Intra WATS/FX	851	10.0
8. Mobile	308	19.0
9. Miscellaneous	382	8.2
Total Intra Provincial Services	18,264	8.5
10. Interprovincial Toll	(2,471)	(2.1)
TOTAL	15,793	4.7

The Board, in its 1986 Annual Report stated the following:

> "An Ad Hoc Committee representing St. François Xavier Exchange raised several areas of perceived inequity for rural customers with regard to calling patterns, costing, single party line service, non-operator interrupted calls, non-discretionary calls and improved service.
>
> After hearing the concerns of the above parties and noting that the System's rate structure and rating philosophy had not been examined by the Board since the System's appearance before the Board in 1975, the Board instructed the System to commission an independent examination of its rate structure and rate philosophy. This examination would include the matters of intra message toll calls in relation to distance sensitivity, costs of service, value of service, rural and urban calling patterns and "lifeline" rates."

The System engaged INFOPRO to carry-out an independent review of the System's rating objectives, principles and tariffs. The INFOPRO witness testified that the major findings and conclusions of the report were:

> "a) MTS is not meeting its corporate mission of being financially self sufficient.
>
> b) The dependence of MTS on contribution revenue for services provided outside the province must be changed since this contribution revenue cannot be sustained over the longer term.
>
> c) MTS local and intraprovincial toll rates are amongst the lowest of any major telephone company in Canada and future revenue requirements must be generated primarily from increases in local service rates.
>
> d) Extended Area Service should not be expanded given the current financial situation of MTS.
>
> e) Lifeline service is not required at the present time and may not be required if local rates are maintained within the Canadian norms."

The Intervenors questioned the independency of the review as INFOPRO is a Division of Bell Canada and furthermore, questioned whether the terms of reference of the engagement address the concerns raised by the Board in its Order No. 59/86 dated March 27, 1986.

Although the report may not have specifically addressed the concerns of the Intervenors, the System indicated that "...the Provincial Government is initiating a review of policies which guide MTS in the improvement of services in rural Manitoba". The Board expected that following completion of this survey, the System will bring before the Board, no later than at its next rate hearing, changes in rural servicing policies resulting from recommendations eminating from the survey.

Consumers' intervention may be summarized in the recommendation of their witnesses' which were as follows:

"a) The Board reject the conclusions of MTS and INFOPRO that local service is subsidized.

b) The Board require the System to present much more detailed studies of cost causation.

c) The Board increase rates for enhanced services and extensions by 15%.

d) The rates for basic residential monthly service be increased as little as possible.

e) The Board examine other sources of revenue from enhanced or discretionary sources to keep increases in basic residential service to a minimum."

The Board accepted the notion of increased rates for enhanced services as reflected in Clause (c) above and ordered the following:

"(ii) The residential main Enhanced Service (Tariff Item 475) premium over the basic rates be increased such that the over-all percentage increase in the rate for the provision of Enhanced Residential service be equal to the percentage increase in rates for basic service for each rate group."

Intervenors from the St. François Xavier Exchange, the Lorette and Springfield Exchanges highlighted for the Board what, in their opinion, was lower than acceptable standards of service and inequities in rates.

While the Board expressed its concern about the level and cost of service provided to these exchanges located adjacent in the City of Winnipeg, it expressed its much greater concern for the level of service provided in other smaller exchanges in the rural communities. The Board noted its concerns regarding toll charges incurred by these customers in making calls to their local service providers.

The Board anticipated that the survey to be conducted respecting rural service improvements may result in some changes in existing policies and may identify other sources of revenue should the Extended Area Service (EAS) (*) policy be altered.

In Order Nos. 111/87, 112/87 and 113/87 all dated June 24, 1987 the Board awarded costs to the Consumers in the amount of $8,446.35, to Citizens Opposing Non-Equitable Charges for Telephone Service (CONECTS) in the amount of $502.79 and to Mr. Gerard Kooiman representing the Lorette Exchange in the amount of $834.21.

(*) Extended Area Service - exchange service that is furnished between two or more exchanges.

Pursuant to Order-in-Council No. 631 issued in August of 1987 the System in a letter dated October 2, 1987 applied to the Board for approval to offer cellular mobile radio network access service. In the interest of providing service at the earliest opportunity the System applied for interim approval.

The Board agreed to an early hearing held on November 2, 1987 to deal with the application on an interim basis. The Board noted that the Federal Department of Communications has designated the System and a company known as Cantel Inc. to be the two cellular system operators in Manitoba.

After considering the evidence, the Board approved the System's application on an interim basis in Order No. 154/87 dated November 6, 1987. This approval permits the System to commence offering the service on or about May 6, 1988 or earlier if Cantel Inc. agrees.

The final hearing of this matter was held on December 14th and 15th, 1987 and at the date of this writing the Board's decision was still pending.

MANITOBA HYDRO

Pursuant to Section 39(4) of The Manitoba Hydro Act (Chapter H190) the Consumers Association of Canada (Manitoba) branch and the Manitoba Society of Seniors filed an application to the Board on May 29, 1986, on February 2, 1987 and on January 27, 1988, for a review of the price fixed or proposed to be fixed by Manitoba Hydro effective April 1, 1986, 1987 and 1988 respectively.

The applicants stated the Board's review should include the following:

"(a) Are the rates reasonable in relation to the overall revenue requirement of the utility in the 1986-87 fiscal year?

(b) In light of the commitment to Limestone first power in 1990 and the necessity to establish adequate reserves, are the rates sufficient for the financial well-being of the utility?

(c) Is the burden of the revenue requirement fairly and equitably distributed among classes of customers, taking into account a proper allocation of the utility's cost and other considerations relevant to the establishment of a rate structure?

(d) The object of the Manitoba Hydro Act includes the following: "to promote economy and efficiency in the generation, distribution, supply and use of power."

(i) Do the rates as presently structured promote economy and efficiency, as required by the Act?

(ii) What kind of rate revision should be considered to improve the economic and efficient supply and use of power in Manitoba?

"(e) The Constitution Act 1982 contains a committment to the equal benefit and protection of the law (Section 15) and to the universal provision of essential public services (Section 36(1)(c)). Given the disproportionate effect of utility rates on lower income customers, are there rate revisions which should be recommended to the Minister in Order to enhance such social equity objectives?

(f) Such further matters as the Applicants may advise and the Board may wish to consider."

The Board held a meeting on November 6, 1986 and January 23, 1987 with representatives from Manitoba Hydro and the Consumers Association of Canada (Manitoba Branch) and the Manitoba Society of Seniors (the Consumers) to establish the scope of the public hearing as prescribed by Section 39(5).

Order No. 78/87 dated April 23, 1987 established the scope of these proceedings and the "Minimum Filing Requirements" for Manitoba Hydro.

Of particular interest the Board noted that it would deem assets acquired by Manitoba Hydro prior to 1987 fiscal year as prudent acquisitions including Limestone and that the forecast period would be restricted to a five (5) year period. These particular criteria were subject of debate at the Board's public hearing held on February 1 - 12, 1987. At the date of this writing the Board's report is still pending.

Order No. 101/87 dated June 11, 1987 was issued by the Board giving Intervenor status to Consumers to make them eligible for costs pursuant to the Board's Cost Order No. 56/85. This particular order was required as pursuant to Section 39 of The Manitoba Hydro Act the Consumers were technically the Applicants for a rate review.

On December 21, 1987 the Board was requested by Consumers to sign a subpoena requiring the production of certain documents from the Department of Energy & Mines. These documents, the Board was advised, were related to "least cost planning" and include the following:

1. "Energy Planning For an Era of Uncertainty: A Proposed Framework for Manitoba", 1985, by Ralph Cavanaugh;

2. the departmental response thereto;

3. and the subsequent reply by Mr. Cavanaugh.

As this was the first request of the Board to issue a subpoena it requested Consumers to provide further information. Following a meeting with Consumers the Board issued a subpoena on the basis that the Department of Energy & Mines would be given an opportunity to respond.

The Department of Energy & Mines responded by way of an affidavit signed by the Department's officials. The Board at a meeting held on January 21, 1988 heard arguments from Consumers and Counsel for the Department with respect to the continuance of the subpoena. After hearing the evidence the Board in Order No. 4/88 dated January 22, 1988 quashed the subpoena on the basis that:

"3(d) All of the documents contain certain strategic market information which, if released, could be prejudicial to the economic interests of the Province of Manitoba as such information could be used by potential hydro customers in a manner which would harm the bargaining position of the Government of Manitoba or its Crown agencies during its/their negotiations of export sales of hydro-electricity with such potential hydro customers."

The Board would like to clarify that it followed the proper procedure as set forth in the caselaw which indicates that a subpoena for documents is issued by the Board but that the subpoena is subject to challenge by the Crown on the basis of privilege. After hearing this matter, the Board ruled that privilege applied and there was therefore no reversal in the Board's position.

Consumers appealed the Board's decision to the Court of Appeal and the Court on February 5, 1988 upheld the Board's decision.

THE MUNICIPAL ACT

WATER AND SEWER UTILITIES

There were a total of 95 Board Orders issued by the Board respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 49 applications pursuant to Section 563 of The Municipal Act which requested approval and authorization for method of recovery pertaining to operating deficits for the year ending December 31, 1986. In respect of the aforesaid 49 applications, Orders were issued authorizing same.

(ii) 30 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist them with their rate design and to ensure that sufficient revenue would be provided to cover normally anticipated expenses plus an adequate contingency allowance. Applications were handled by public hearing or Returnable Date Notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 15 applications for establishment of utility reserve funds pursuant to Section 569 of The Municipal Act were processed and Orders issued to authorize the creation of the reserve funds.

(iv) 1 application by The Rural Municipality of Rhineland for the sale of the Altona North Water Reservoir to the Altona Rural Water Services Co-op was processed and Order issued authorizing same.

The Board authorized 36 requests by municipalities to make expenditures from their utility reserve funds established under Section 569 of The Municipal Act for miscellaneous purposes relating to the operations of the utilities.

The Board staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases only, or for the establishment of utility rates.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board issued 3 Orders respecting appeals of the decisions of The Highway Traffic Board.

Two applications dealt with off-site advertising signs located within areas adjacent to Provincial Trunk Highways designated by regulation of The Highway Traffic Board as Controlled Areas. One application dealt with an access driveway onto a Limited Access Highway designated by The Highway Traffic Board.

All three appeals were allowed and Orders issued.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1987, the Board issued 27 renewal licences. Twenty-three applications for revisions in fees for services, as well as one application for sales contract revisions, two for Authorized Trustee agreement revisions and three for surety bond agreements were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operation of 10 cemeteries, 7 columbariums, 3 mausoleums and 5 crematories. Thirty-seven licences and 9 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 5 applications, each for a revision in a schedule of fees for spaces, materials and services were authorized.

The Board continued to monitor the maintenance and passing of accounts of a Judge of the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act.

The Board conducted a public hearing on September 4, 1986 on the subject of an application by Green Acres Memorial Gardens (1969) Ltd. (Green Acres) for the approval of a one-time charge to replace an "escalator clause" in the Company's preneed contract agreements dating between 1960 and 1975. This clause permitted the Company, at the time of need, to charge an extra fee equivalent to the increase in the wholesale cost of goods and services, exclusive of plot prices, since the signing of the contract.

This matter was originally dealt with by the Board in 1984 when after a meeting with Company officials, the Board ordered that Green Acres discontinue exercising the "escalator clause" as the contracts were never approved by the Board as required by statute and furthermore, this clause allowed Green Acres to vary prices without Board approval which was also contrary to the Act. The Board's

decision was appealed to the Court of Appeal. The Court of Appeal instructed the Board to convene a new hearing to allow Green Acres to endeavour to obtain from the Board the approval of a "once-in-a lifetime charge". This was the subject of the Board's subsequent hearing.

Green Acres subsequently applied to the Board seeking approval for an extra charge which ranged from $58.00 to $1,071.40 per contract for a total amount of approxiamtely $260,000.

After hearing all the evidence, the Board in Order No. 3/87, dated January 14, 1987 approved a "once-in-a-lifetime charge" reducing Green Acres total request to approximately $180,000. In its decision the Board deemed that a certain portion of the monies paid by the purchaser had been set aside in a trust account (although no monies were set aside) and furthermore deemed that this money earned interest at rates comparable to the perpetual care fund over time. Contract holders were given one (1) year to pay the extra charge following which, carrying charges would be assessed.

By letter dated February 5, 1987, Legal Aid Manitoba on behalf of Manitoba Society of Seniors (MSOS) requested the Board to review Order No. 3/87 pursuant to Section 44 of The Public Utilities Board Act. This review was conducted by the Board on April 22, 1987. Interested parties were advised by letter dated May 5, 1987 that the Board would not vary its Order.

Order No. 3/87 directed Green Acres Memorial Gardens (1969) Ltd. to make certain amendments to its submission. These requirements having been met, the Board issued Order No. 105/87 dated June 19, 1987 which approved specific charges for each contract holder.

On October 29, 1987, an appeal launched by Legal Aid Manitoba against Order No. 3/87 was dismissed by the Manitoba Court of Appeal.

Because the implementation of Order Nos. 3/87 and 105/87 were delayed by the legal proceedings, the Board issued Order No. 171/87 dated December 16, 1987 wherein the Board extended to December 31, 1988 the date beyond which extra carrying charges could be assessed against customers who had not chosen to accept the Company's offer, and the interest rate to be used in calculating the charge.

REVENUE

Most costs incurred by the Board in carrying out its operations were substantially recoverable from the utilities and agencies under its jurisdiction or making application for its service. The 1987 revenue collected was as follows:

Public Utilities	$852,725.56
The Prearranged Funeral Services Act	675.00
The Cemeteries Act	5,687.00
The Highways Protection Act	Ø
Miscellaneous	161.75
	$859,549.31

This data covers actual receipts only for the period covered by this Report, ending December 31, 1987. Receipts after that date will be recorded for the subsequent year.